

## Message Text

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ACTION TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-08 COME-00 FRB-03 XMB-02  
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FM AMEMBASSY ABU DHABI  
TO SECSTATE WASHDC 7227

C O N F I D E N T I A L ABU DHABI 0183

FROM THE AMBASSADOR

E.O. 11562: GDS  
TAGS: EFIN  
SUBJ: TAX EXEMPTION OF ASSETS HELD IN US BY ARAB MONETARY FUND

REF: (A) 77 ABU DHABI 2107, (B) 77 ABU DHABI 2249, (C) 77  
STATE 249396 (DTG 172335Z OCT 77

BEGIN SUMMARY: AMF MANAGING DIRECTOR SEEKS PROMPT RULING TO  
REQUEST FOR EXEMPTING FROM U.S. TAXES ON INTEREST RECEIVED FROM  
DUND'S ASSETS IN TREASURY BILLS. END SUMMARY

1. ON JANUARY 23, JAWAD HASHIM, MANAGING DIRECTOR OF ARAB MONE-  
TARY FUND, CALLED ON ME TO DISCUSS CONTINUING PROBLEM FUND IS HAVING  
IN GETTING A DECISION FROM IRS ON WHETHER  
FUND WILL BE EXEMPT FROM U.S. WITHHOLDING TAX ON INTEREST DERIVED  
FROM ITS HOLDINGS OF TREASURY BILLS. THIS SUBJECT WAS FIRST  
RAISED BY EMBASSY IN REF (A), AGAIN DURING JULY 26, 1977 VISIT  
OF FEDERAL RESERVE GOVERNOR JACKSON (REF B), DURING MY CONSULTATIONS  
IN WASHINGTON ON AUGUST 16, 1977 WITH TREASURY ASSISTANT SECRETARY  
BERGSTEN AND BY AMF OFFICIAL IBRAHIM IBRAHIM WITH TREASURE UNDER-  
SECRETARY SOLOMON ON SEPTEMBER 28 (REF C).

2. HASHIM SAID THAT AMF HAD HIRED THE SERVICES OF NEW YORK LEGAL  
FIRM BYRNE, JACKSON, MILLER, SUMMIT AND JACOBY TO PURSUE MATTER WITH  
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IRS OFFICIALS. THIS PARTICULAR FIRM HAD BEEN RECOMMENDED TO IT BY  
BOOZ ALLEN AND SAUDI MONETARY AGENCY SINCE FIRME SPECIALIZED IN  
TAX MATTERS. ON SEPTEMBER 23, 1977, AMF LEGAL REPS HAD SENT  
LETTER TO IRS REQUESTING A RULING THAT AMF BE CONSIDERED AS  
A FOREIGN GOVERNMENT AND THEREFORE EARNINGS ON ITS ASSETS INVESTED  
IN TREASURY SECURITIES BE EXEMPT FROM U.S. INCOME TAXES. ON  
DECEMBER 12, LAWYERS FROM FIRM HAD MET WITH MR. KIM PALMERINO,

ACTING SUPERVISOR OF CORPORATE BRANCH OF INCOME TAX DIVISION AND HIS ASSISTANT, MR. JOSEPH TIGANI. IRS REPS HAD RAISED THREE ISSUES: (A) WHETHER AMF HAS SEPARATE LEGISLATIVE, EXECUTIVE, AND JUDICIAL FUNCTIONS; (B) WHETHER AMF HAS SOVEREIGN POWERS; AND (C) WHETHER AMF WILL HAVE A PERPETUAL EXISTENCE. ON JANUARY 5, 1978, THE AMF HAD SUBMITTED SUPPLEMENTAL INFORMATION IN RESPONSE TO THESE AND OTHER QUESTIONS.

3. HASHIM POINTED OUT THAT AMF ORGANIZED ALONG SAME LINES AS IMF. ITS BOARD OF DIRECTORS IS THAT EXECUTIVE BRANCH, ITS BOARD OF GOVERNORS IS ITS LEGISLATIVE BRANCH, AND IN CASE OF DISPUTE THERE IS AN ARBITRAL COMMITTEE TO BE CONVENED TO RESOLVE ISSUE. THIS ALL SPELLED OUT IN AMF CHARTER. POINTED OUT THAT AMF DOES HAVE SOVEREIGN POWERS SINCE CHARTER GIVES IT INDEPENDENT JURIDICAL PERSONALITY WITH RIGHT OWN, CONTRACT AND LITIGATE (ART. 2) AS WELL AS LEGAL IMMUNITY FOR ALL FUND'S PROPERTIES AND ASSETS WHEREEVER THEY MAY BE IN MEMBER COUNTRIES (PART 8 - ARTS 41-45). WITH REGARD TO CONDITIONALITY, HASHIM SAID AMF WOULD BE JUST AS TOUGH AS IMF. IN FACT, HE THOUGHT IT WOULD BE TOUGHER. FOR EXAMPLE, AMF BOARD OF DIRECTORS MEETING FEB 1 WILL BE ASKED TO SUBMIT A RESOLUTION TO BOARD OF GOVERNORS MEETING APRIL 27 WHEREBY MEMBER COUNTRIES WOULD GIVE THEIR APPROVAL FOR IMF TO SUPPLY AMF WITH INFORMATION DERIVED FROM ANNUAL ARTICLE VIII CONSULTATIONS, INCLUDING IMF REPORT GIVING ANNUAL STAFF APPRAISAL. IN OTHER WORDS, AMF WANTED RULING WHICH WOULD GIVE IT ACCESS NOT JUST TO INFORMATION SUPPLIED BILATERALLY BY MEMBER GOVTS IN THEIR DEALINGS

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WITH AMF BUT EVERYTHING WHICH THESE GOVTS ALSO SUPPLY TO IMF. HASHIM ALSO OBSERVED THAT PALESTINE HAD NOT SUBSCRIBED TO THE CAPITAL OF AMF AND COULD NOT BE CONSIDERED A MEMBER SINCE IT WAS NOT AN EXISTING STATE WITH OWN INDEPENDENT FINANCIAL SYSTEM, CENTRAL BANK, BALANCE OF PAYMENTS, ETC.

4. HASHIM MADE POINT THAT AMF WOULD MUCH PREFER TO HOLD ITS ASSETS PRIMARILY IN TREASURY BILLS. IT ALSO WANTED TO ESTABLISH A SMALL LIAISON OFFICE IN WASHINGTON, D.C. SO THAT AMF COULD CONSULT CLOSELY WITH IMF. BUT IF IRS RULING NOT OBTAINED SOON, AMF WOULD BE FORCED TO TAKE OTHER MEASURES.

5. COMMENT: CAN APPRECIATE THAT CARE AND DELIBERATION NEEDED BUT UNLESS FURTHER INFORMATION REQUIRED, SEEMS TO US THAT ENOUGH TIME HAS ELAPSED TO REACH A DECISION. WHILE WE FIND INCONCEIVABLE FROM INTEREST OF USG NOT TO HAVE MOST OF AMF'S ASSETS IN TREASURY BILLS WHICH LIKELY GROW AS AMF'S ACTIVITIES EXPEND, BELIEVE TREASURY AT LEAST OWES AMF COURTESY OF A PROMPT RULING.

6. ACTION REQUESTED: WOULD APPRECIATE RECEIVING BY JANUARY 26, WHEN I NEXT SEE HASHIM, STATUS REPORT OF WHERE AMF REQUEST FOR TAX EXEMPTION NOW STANDS. DICKMAN

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## Message Attributes

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**Channel Indicators:** n/a  
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**Decaption Date:** 01 jan 1960  
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**Disposition Comment:** 25 YEAR REVIEW  
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